

YUBA COUNTY ASSESSMENT PRACTICES SURVEY

FEBRUARY 2000

CALIFORNIA STATE BOARD OF EQUALIZATION

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February 18, 2000

TO COUNTY ASSESSORS:

No. 2000/015

YUBA COUNTY
ASSESSMENT PRACTICES SURVEY

Here is the Yuba County Assessment Practices Survey Report. The Board completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the State Board of Equalization shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The assessor was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained in the report. This report, the county assessor's response, and the County Property Tax Division's (CPTD) comments regarding the response, constitute the final survey report which is distributed to the Governor, the Attorney General, the State Legislature; and the county's Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey of the Yuba County Assessor's Office was conducted by CPTD during February through June 1998. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The Honorable David A. Brown, Yuba County Assessor, and his staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and good spirit during the interruption of their normal work routine.

We invite your comments and exchanges of information, for we feel that these surveys can only be helpful in a mutually cooperative atmosphere.

Sincerely,

Richard C. Johnson
Deputy Director
Property Taxes Department

RCJ:jm

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INTRODUCTION

Although the primary responsibility for local property tax assessment is a function of county government, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest stems from the enormous impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial impact is that half or more of all property tax revenues are used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

The assessment practices survey program is one of the major State efforts to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) is required to periodically review (survey) every county assessor's office and publish a report on the survey findings. This report reflects the BOE's findings in its periodic survey of the Yuba County Assessor's Office.

The assessor is required by law to file with the board of supervisors a response that indicates the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly, and to the Yuba County grand jury and assessment appeals board. The response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The assessor elected to file his initial response prior to publication; the response is included in this report following the appendixes.

Management audit reports typically emphasize problem areas, with little said about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas. However, assessment practices survey reports also contain information required by law (see *Scope of Survey*) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

SCOPE OF SURVEY

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the performance of other duties enjoined upon the assessor, and the volume of assessing work as measured by property type. As directed by Government Code section 15644, this survey report includes recommendations for improvement to the practices and procedures found by the BOE's survey team.

In addition, Revenue and Taxation Code section 75.60¹ requires the BOE to certify that the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards, defined by regulation, that there are no significant assessment problems. The statutory

¹ All statutory references are to the Revenue and Taxation Code unless otherwise indicated.

and regulatory requirements pertaining to the assessment practices survey program are detailed in the Appendix.

Our survey of the Yuba County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in Yuba County with information relevant to the property tax assessment program.

This survey also included an assessment sample of the 1997/98 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The sampling program is described in detail in the Appendix.

An assessment practices survey is not an audit of the assessor's entire operation. We did not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to property tax assessment.

EXECUTIVE SUMMARY

Overall, we believe the assessor's program is very sound and only needs "fine tuning" in some areas. This report contains several recommendations and suggestions for changes to both the new construction and change in ownership assessment procedures, as well as in the areas of special property types and special procedures. We also make several recommendations and suggestions for improvements in the personal property assessment program. The program's major deficiencies are an inappropriate method of developing both replacement cost factors and depreciation tables for purposes of developing replacement cost estimates for individual items of business property.

In addition, we identified some problems with the proper utilization of disaster relief practices as provided for in Revenue and Taxation Code section 170. This came to light with our review of two recent disasters: the Feather River flooding on January 2, 1997 and the Williams Fire on September 27, 1997.

Finally, our review of unpatented mining claims revealed that some ongoing problems persist which the assessor needs to correct. Specifically, the practice of arbitrarily increasing the assessment of unpatented mining claims should be discontinued.

Revenue and Taxation Code section 75.60 requires that the BOE certify a county as eligible for the recovery of costs associated with administering supplemental assessments. In order for a county to qualify as an eligible county, it must achieve an average assessment level that is not less than 95 percent of the amount required by law as determined by the BOE through its assessment-sampling program. In addition, for sampling for the 1997-98 fiscal year and subsequent fiscal years, the sum of the absolute values of the differences cannot exceed 7.5 percent of the legally required amount.

Based upon our assessment sampling for the 1997-98 assessment roll, the BOE certified Yuba County as an eligible county. This indicates that its overall assessment program is in substantial compliance with the law. Section 75.60(c) provides that the certification shall remain in effect until the next sampling.

RECOMMENDATIONS AND SUGGESTIONS

Here is a list of formal recommendations contained in this report, arranged in the order they appear in the text.

Recommendation 1:	Include the escape assessment caption required by statute on the assessment roll.....	7
Recommendation 2:	Cease exempting low-value property unless the Board of Supervisors adopts a low-value resolution.....	8
Recommendation 3:	Revise disaster relief procedures by (1) requesting the board of supervisors conform the disaster relief ordinance to Revenue and Taxation Code section 2192, (2) assessing damaged properties as of the date of completion of damage repair, restoration, or reconstruction, and (3) after a disaster, informing taxpayers of the possibility for deferral of property taxes pursuant to Revenue and Taxation Code section 194.1.	10
Recommendation 4:	Apply the penalty required by Revenue and Taxation Code section 482 for failure to respond to a request for a “Change in Ownership Statement.”	13
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Recommendation 8:	Revise the assessments of unpatented mining claims by (1) using factored base year value as the upper limit of taxable value, (2) using BOE-prescribed valuation techniques, (3) including new construction values in taxable value, and (4) verifying filing status.....	22
Recommendation 9:	Revise the assessments of quarries by (1) complying with BOE Rule 469 by using the appropriate appraisal unit when determining the taxable value of quarries and (2) adjusting base year values for changes in reported reserves.	24
Recommendation 10:	Reflect the effect of government restrictions when valuing properties encumbered by Federal Government financing agreements.	25

Recommendation 11:	Use price indices and depreciation factors published in Assessors' Handbook 581, as intended.....	28
Recommendation 12:	Use BOE recommended valuation factors to value computers.	30
Recommendation 13:	Revise boat appraisal procedures by (1) annually assessing boats at market value and (2) obtaining computerized access to DMV's vessel database.....	30
Recommendation 14:	Revise the program for the assessment of manufactured homes by (1) classifying manufactured homes as personal property and (2) annually reviewing manufactured homes for market value below factored base year value.	33

Here are suggestions contained in this report. Our suggestions are considered less formal than recommendations, and the assessor is not required to make any response to suggestions. Typically, suggestions are BOE staff opinions on ways the assessor can improve efficiency, product quality, or other matters that do not require a formal recommendation.

<i>Suggestion 1:</i>	<i>Document adjustments to construction costs of swimming pools.</i>	<i>14</i>
<i>Suggestion 2:</i>	<i>Improve the assessments of agricultural property by (1) maintaining a centralized agricultural construction cost database and (2) conducting periodic field reviews of agricultural properties.</i>	<i>16</i>
<i>Suggestion 3:</i>	<i>Annually review the taxable status of government-owned property.</i>	<i>18</i>

OVERVIEW OF THE YUBA COUNTY ASSESSOR'S OFFICE

The following information was taken from a document titled *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessor's Offices*. The document is published annually by the State Board of Equalization.

The assessor's staff level remained constant between the 1992-93 and 1996-97 fiscal years. During this interval the property tax revenue generated for taxing agencies in the county increased almost 13.5 percent. The gross budget of the assessor's office has increased 7 percent since fiscal year 1992-93; gross budget represents total expenses prior to any reimbursements for services furnished to others and/or financial aid from higher levels of government. Reimbursements and financial aid from others have increased since the 1992-93 fiscal year; the assessor's net budget has increased almost 11 percent since 1993-94 (1992-93 was unavailable). The assessor's net budget for the 1993-94 fiscal year was \$466,333; for the 1996-97 fiscal year the net budget was \$516,265.

<u>Fiscal Year</u>	<u>Gross Budget</u>	<u>Staff Size</u> ⁽¹⁾	<u>Assessed Value</u>	<u>Number of Assessments</u>
1992-93	\$614,162	15.5	\$1,816,325,000	26,400
1993-94	\$614,162	15.5	\$1,830,977,000	27,424
1994-95	\$612,500	15.5	\$2,165,658,000	27,584
1995-96	\$635,300	15.5	\$2,223,447,000	27,744
1996-97	\$656,565	15.5	\$2,241,864,000	27,838

⁽¹⁾includes assessor

The assessor is aggressive in his efforts to modernize his office's electronic data processing capabilities. An upgrade (in process at the time of this survey) to the existing Megabyte system has greatly enhanced and more efficiently integrated the assessor's, county auditor's, and county tax collector's property tax information management systems. This upgrade has made data more accessible, thereby providing reports to be used for better planning and control on the part of management. In addition, public requests for information will be fulfilled in an even more expeditious manner. This upgraded system is providing more efficiency for work processes and making more resources available for improving the quality of the assessor's overall operations.

The system is an integrated, automated, menu driven system encompassing the assessor, tax collector, and auditor functions. An additional benefit of this upgrade is that equipment maintenance and replacement costs are expected to be substantially reduced. The new technology now utilized allows for systems to run on a number of different computer types. The user(s) are no longer restricted to a single hardware or operating/software system configuration.

We commend the assessor for his innovative approach and successful efforts to improve taxpayer services and obtain a 'state of the art' system utilized by the assessor, tax collector, and auditor.

ADMINISTRATION

ROLL CHANGES

The county assessor has the duty to annually complete the local assessment roll and deliver it to the county auditor on or before July 1 of each year. After delivery of the roll to the auditor, the assessor may add assessments but has no power to change existing assessments unless authorized by the board of supervisors or specific statutory provisions.

Revenue and Taxation Code sections 51.5, 531, 4831, and 4831.5 authorize roll changes for a variety of reasons. The most typical are escape assessments resulting from audit adjustments and new construction, clerical error, disaster relief, and decline in market value below factored base year value. Late filed Homeowners' exemptions, changes ordered by the assessment appeals board, and public land acquisitions also require roll changes.

Revenue and Taxation Code section 533 and BOE Rule 252(a) describe how an escaped assessment is to be entered on the assessment roll. If the escaped assessment is entered on a roll other than the roll for the assessment year in which the property escaped assessment, the entry should be followed with the caption:

“Escaped assessment for year 19__ pursuant to sections _____ of the Revenue and Taxation Code.”

This caption is required for both the secured and unsecured roll, and for both real property and personal property.

Recommendation 1: Include the escape assessment caption required by statute on the assessment roll.

The caption required by section 533 does not appear on the Yuba County assessment rolls. This omission should be corrected.

Our review found no other irregularities in the assessor’s roll change procedures. Also, our review found that the reasons for making roll changes were adequately documented.

ASSESSMENT APPEALS

The assessment appeals function is established by article XIII, section 16 of the California Constitution, which provides that the Legislature shall determine the manner and procedure of assessment appeals. Revenue and Taxation Code sections 1601 through 1641.1 are the statutory references that guide the county appeals board in the appeals function. Government Code section 15606(c) directs the State Board of Equalization (BOE) to prescribe rules and regulations to govern local boards of equalization. The BOE has adopted Property Tax Rules 301 through 326 (Title 18, Public Revenue, California Code of Regulations) regarding assessment appeals.

The Yuba County Assessment Appeals Board consists of three members appointed by the Yuba County Board of Supervisors. Assessment appeal hearings are held three to four times a year. The Clerk of the Assessment Appeals Board handles all clerical requirements. The number of appeal cases filed by taxpayers has averaged approximately 60 per year for the past three years.

The assessor's office has assisted in developing a manual used by the Yuba County Assessment Appeals Board. The manual is well written and contains a detailed table of contents for easy referencing to the statutory requirements of the Revenue and Taxation Code and the Property Tax Rules.

The assistant assessor is responsible for all assessment appeals and will, in most cases, present the case to the appeals board with technical support from his appraisal staff. We reviewed a number of these cases and found that the assessor's staff is well prepared and knowledgeable concerning the law and rules pertaining to the assessment appeals process.

LOW-VALUED PROPERTY EXEMPTION

Revenue and Taxation Code section 155.20 authorizes the board of supervisors to exempt from property taxation all real property with a base year value and personal property with a full value so low that, if not exempt, the total taxes, special assessments, and applicable subventions on the property would amount to less than the cost of assessing and collecting them. In determining the level of exemption, the board of supervisors must determine at what level the costs of processing assessments and collecting taxes exceed the funds collected, and then establish the exemption level uniformly for different classes of property. Except for certain possessory interests, the full value to be exempted may not exceed \$5,000.

Recommendation 2: Cease exempting low-value property unless the Board of Supervisors adopts a low-value resolution.

The assessor is currently exempting property valued at less than \$500. The Yuba County Board of Supervisors, by Resolution No. 1981-33, adopted a low-valued property exemption for real and personal property with a full value of \$500 or less. However, this resolution only applied to the 1981-82 fiscal year, and not to subsequent years.

Since the assessor has no authority to exempt low-value property, we recommend that all taxable property be assessed.

SUPPLEMENTAL ASSESSMENTS

We reviewed the assessor's procedures for supplemental assessments for compliance with the provisions of Revenue and Taxation Code section 75, et seq. With the exception of disaster relief, the assessor appears to be properly and promptly processing supplemental assessments. The disaster relief supplemental assessment issues are discussed in the topic titled "Disaster Relief."

Historically, the assessor has issued supplemental assessments approximately two months after notification of an assessable event. During 1997, two major disasters greatly impacted the supplemental assessment workload. However, within about a year of the first of these disasters, processing time had returned to near normal levels. By January 1998, supplemental notices were mailed approximately six months after the reassessable event.

The assessor processes all supplemental assessments, regardless of value.

We reviewed a selection of files, which included 56 supplemental notices. Of these, 49 were issued for change in ownership, three were disaster related, one was a demolished structure (not disaster related), and three were new construction. We found no errors or excessive delays in processing the supplemental assessments.

We commend the assessor for his supplemental assessment program, which we found to be highly accurate and efficient.

DISASTER RELIEF

Revenue and Taxation Code section 170 authorizes a county board of supervisors to adopt an ordinance that would allow property tax relief for eligible properties damaged or destroyed by disaster or calamity through no fault of the assessee. The board of supervisors may limit the ordinance to only those properties located in an area proclaimed by the Governor to be in a state of disaster, providing the damage is a result of that disaster. The Board of Supervisors may also adopt a continuing ordinance that allows the assessor to reassess any damaged or destroyed property for any owner of eligible and qualifying property. The ordinance may also be adopted for a specific period of time.

To be eligible for disaster relief, the property must suffer a loss in value of at least \$5,000. The assessor must calculate the percentage of full cash value lost, and that percentage must then be applied to the values appearing on the assessment roll.

The Yuba County Board of Supervisors adopted a disaster relief ordinance, on September 30, 1980. The ordinance is not limited to disasters proclaimed by the Governor. Because the ordinance does not specify a termination date, it will remain effective until it is amended or repealed.

Two major disasters occurred in Yuba County in 1997: a Feather River levee break on January 2, 1997 and the Williams Fire on September 27, 1997. The Governor proclaimed the county to be in a state of disaster after each event. Property owners of eligible properties damaged in either event may have been entitled to relief under both sections 170 and 194.

The assessor's staff analyzed all affected assessments within the 1997 flood damage area, which totaled 1,060 secured assessments and 218 unsecured assessments. Of these, the assessor determined that a total of 695 secured assessments and 51 unsecured assessments qualified for

section 170 property tax relief. The market value loss of qualifying taxable real and personal property caused by the flood was calculated to be \$37,614,815. A similar study of the Williams Fire burn area determined a market value loss of \$11,442,275. The combined market value loss from these two events approximates 3 percent of the taxable value on the 1997-98 assessment roll.

As a result of prior disasters, Yuba County developed disaster relief procedures that allowed the assessor's office to efficiently notify taxpayers eligible for disaster relief and process relief claims for the disasters of 1997. Reassessments for disaster relief after the January 2, 1997 flood were prioritized by the assessor, and the revised tax bills for all eligible properties were mailed prior to the annual April 10th installment due date for property taxes.

The assessor obtains property damage information from City of Marysville and Yuba County building departments, various fire protection agencies, and local newspapers. When the assessor becomes aware of property damage that may qualify for section 170 disaster relief, his office mails the property owner an informational letter and an application for reassessment. If no response is received after the first letter, the assessor mails a second notice 30 days prior to expiration of the six-month filing period.

Assessable new construction events in Yuba County averaged 1,070 per year for the three years prior to calendar year 1997. As a result of these disasters, the new construction events in 1997 increased 75 percent, to 1,879 events. Within one year of the 1997 flood, the assessor's office had reduced the disaster relief workload to near normal levels.

Recommendation 3: Revise disaster relief procedures by (1) requesting the board of supervisors conform the disaster relief ordinance to Revenue and Taxation Code section 2192, (2) assessing damaged properties as of the date of completion of damage repair, restoration, or reconstruction, and (3) after a disaster, informing taxpayers of the possibility for deferral of property taxes pursuant to Revenue and Taxation Code section 194.1.

Conform disaster relief ordinance

At present, the county's disaster relief ordinance has not been amended to reflect the January 1st statutory lien date; instead the ordinance describes March 1st as the lien date. We recommend that the assessor request the Board of Supervisors to revise the disaster relief ordinance to reflect a lien date of January 1st.

Date of completion of damage repair, restoration, or reconstruction

For items of personal property that are repaired, restored, or reconstructed prior to the end of the assessment year in which the disaster occurred, the assessor uses July 1st of the subsequent assessment year as the date of completion of the restoration. Section 170(h)(1)(A) and (B) states, in pertinent part, "When the property is fully repaired, restored, or reconstructed, the assessor shall make an additional assessment or assessments...as of the date of completion..."

We recommend the assessor reassess the property as of the date of completion of repair, restoration, or reconstruction for properties granted disaster relief under section 170.

Deferral of Taxes on Regular Secured Roll

In counties where an ordinance has been passed to implement section 170, additional tax relief is available through Revenue and Taxation section 194 et seq. for properties damaged by an event which resulted in the Governor proclaiming the county to be in a state of disaster. Section 194 provides for the deferral of property taxes without incurring penalties and interest until 30 days after the property owner has been notified by the assessor of the reassessed value. Neither the tax collector nor the assessor provides information to disaster victims advising them of this option. We recommend the assessor include a notice of the provisions of section 194.1 in the information letter to victims of major disasters.

REAL PROPERTY VALUATION AND ASSESSMENT

THE ASSESSMENT PROGRAM

A county assessor's assessment program for real property includes (1) revaluation of properties that have changed ownership; (2) valuation of new construction; (3) annual valuation of certain properties subject to special assessment procedures, such as property whose use is restricted by a California Land Conservation Act contract, taxable government-owned property, and timberland production zone property (TPZ); and (4) annual reappraisal of properties whose market value is less than factored base year value. In order to accomplish these assessment objectives, the Yuba County Assessor has assigned members of his real property staff to the several geographic areas of the county. An appraiser assigned to a particular geographic area is required to appraise most of the various types of property found in that area. In addition to these geographic areas of responsibility, some staff members are designated as resource specialists for agricultural, TPZ, commercial/industrial, and residential properties.

BASE YEAR VALUES

Article XIII A of the California Constitution provides that the taxable value of real property shall not exceed its 1975 full cash value factored at no more than 2 percent per year for inflation, unless there is a change in ownership or new construction. The 1975 full cash value and subsequent values that result from a change in ownership or new construction are known as base year values.

CHANGE IN OWNERSHIP

In our 1991 assessment practices survey report, we recommended that the Yuba County Assessor use the Preliminary Change of Ownership Report (PCOR) as the first source in obtaining purchase information. The assessor immediately implemented this recommendation. We commend the assessor for implementing this recommendation.

Between July 1, 1993 and June 30, 1997, the assessor was required to establish 5,272 new base year values due to changes in ownership. There were 1,152 change in ownership transfers in the county during the 1996-97 fiscal year, 1,275 transfers during the 1995-96 fiscal year, 1,296 transfers during the 1994-95 fiscal year, and 1,549 transfers during the 1993-94 fiscal year.

The assessor utilizes the Change in Ownership Statements (COS) when the PCOR's are not received. While our review of the change in ownership program indicates that most aspects are functioning well, we noted that the assessor is not in full compliance with the Revenue and Taxation Code regarding COS's.

Revenue and Taxation Code section 482(a) requires compliance, within 45 days, to the assessor's written request for a COS. Failure to comply requires a penalty of either \$100 or 10 percent of the taxes applicable to the new base year value, whichever is greater, but not to exceed \$2,500.

Recommendation 4: ***Apply the penalty required by Revenue and Taxation Code section 482 for failure to respond to a request for a “Change in Ownership Statement.”***

The assessor does not apply the section 482 penalty when a taxpayer fails to respond to a request for a COS. Currently, the assessor sends taxpayers a COS request which includes the penalty clause. However, as a matter of current policy, if the taxpayer does not return the COS, the penalty is not applied, because the assessor believes the appeals board will always abate the penalty.

The assessor has no legal authority to ignore the application of appropriate penalties under section 482. We recommend that the assessor apply penalties in accordance with section 482.

NEW CONSTRUCTION

The Yuba County Assessor's Office uses BOE and Marshall Valuation Service replacement cost factors and local reported costs to determine a value for completed new construction. The assessor does not use sales comparison or capitalized income valuation techniques to value new construction.

The assessor identifies potentially assessable new construction primarily by reviewing copies of all building permits issued by each of the five building permit-issuing agencies in Yuba County. The total permits issued in Yuba County averaged 1,975 per year for the three tax years prior to lien date January 1, 1997. In addition to the building permits, the business property section annually notifies the real property section of all potentially assessable real property items reported on Business Property Statements, Form AH 571, Schedule B. The assistant assessor reviews the building permits and eliminates from further review those items that are considered non-assessable events, which on average equate to approximately 50 percent of all permits.

One of the assessor's most difficult tasks in assessing new construction is discovering new construction undertaken without a building permit. A small percentage of non-permitted new construction occurs in the urban areas of the county; most of it occurs in rural—sometimes inaccessible—areas, and is difficult to identify unless the property undergoes a change in ownership. The planting of trees and vines is also difficult to track when misreported by property owners.

In an effort to quantify and document plantings and escaped new construction, an aerial photographic survey was completed for the entire county in 1996. The assessor's staff is methodically examining the aerial photos and comparing them to the corresponding real property maps and files. The assessor intends to repeat this process approximately every five years. We

commend the assessor for acquiring these photographs. They are an excellent tool for updating agricultural property records, especially property with orchards.

Our review of 42 assessable new construction events established that, overall, the procedures used by the assessor to process new construction are effective. However, while the assessor has strong procedures for processing permits and assessing new construction, we noted one area that needs attention.

The sales comparison valuation technique is always the preferred approach for valuing new construction when sufficient sales data are available. However, a lack of comparable sales data should not automatically lead to discounting of the acquisition cost of building additions, yard improvements, swimming pools, etc.

Suggestion 1: Document adjustments to construction costs of swimming pools.

The assessor's appraisal staff routinely values newly constructed swimming pools at less than actual cost, typically 85 percent. This is contrary to the practice used for property reported on the Business Property Statement; in those instances it is the assessor's policy to use the reported cost. The assessor's staff could provide no market support for the discount applied to swimming pool construction costs other than citing appraiser's knowledge of the market.

Absent any market data support for a discount, we believe that reliance should be placed on acquisition costs. We suggest that the assessor should make a greater effort to support market value adjustments for new construction.

MARKET VALUE LESS THAN FACTORED BASE YEAR VALUE

Revenue and Taxation Code section 51 requires that, whenever a property's market value on the lien date is less than its factored base year value, the lower value be the taxable value for the year of the decline. If the property's market value subsequently increases above factored base year value (FBYV), the FBYV resumes as the taxable value. For the 1997 lien date, 898 real property assessments in Yuba County met this condition.

Revenue and Taxation Code section 51(e) requires that the assessor annually reappraise such property, until such time as the market value exceeds FBYV. The assessor's computer system tracks these properties by encoding them as either a "90" or "91", which prevents them from being annually factored by the inflation index.

Even though the assessor has a good program for tracking identified properties of this type, we found that the assessor does not have a formal program or procedures for discovering properties that have a market value less than FBYV. Staff appraisers assigned to specific geographic areas are responsible for discovering and reappraising any properties in their assigned areas with market values below FBYV, time permitting. Methods of discovery include (1) knowledge of

values in the various areas, (2) specific requests from property owners, (3) formal assessment appeals, and (4) public information announcements.

Recommendation 5: Implement a formal program for discovering properties with a market value below factored base year value.

During our review of changes in ownership, we found that 1,152 full and partial interest changes in ownership had occurred in the 1996-97 fiscal year. Of these, 30 percent had a new base year value established that was less than the prior assessed value and 11.7 percent had a new base year value that was more than \$10,000 below the prior assessed value. The fact that the new base year value was less than the taxable value indicates these properties were overassessed for the lien date immediately prior to the change in ownership. These figures suggest that there may be many more property owners eligible for a taxable value less than FBV than the assessor is presently aware of.

We recommend that the assessor implement a formal program and procedures to discover properties with FBV exceeding current market value.

SPECIAL PROPERTY TYPES

AGRICULTURAL PROPERTIES

Yuba County is one of the few counties that have not implemented the California Land Conservation Act (CLCA). The CLCA allows a landowner to enter into an agreement with a city or county that restricts the landowner's use of the land. The permitted uses must not impair the long-term productive agricultural use of the property. The contract is for a minimum period of ten years; the contract is automatically renewed annually unless the government or the landowner files intent to terminate the contract. In return for these restrictions, the landowner's property taxes are based on the lowest of the value of the income produced from agricultural use of the property, the value prescribed by article XIII A of the California Constitution, or current market value.

Because Yuba County does not participate in the CLCA, agricultural landowners in the county are assessed on the value prescribed by article XIII A of the California Constitution or current market value. The assessor's estimate of the market value of agricultural property in Yuba County is determined by a sales comparison technique for land and growing improvements. The sales comparison technique and/or replacement cost, less depreciation technique, is used to value non-growing improvements.

We found the agricultural property assessment program to be generally effective. However, the appraisal records were not always adequately documented.

There is good coordination between the real property section and the business property section. This provides the assessor with an effective means of avoiding escaped and/or double assessments on agricultural properties.

As discussed in the New Construction section of this report, the staff is also using current aerial photographs to update appraisal records, especially those of agricultural properties.

While the overall agricultural properties assessment program functions well, our review indicated that some areas need improvement.

Suggestion 2: Improve the assessments of agricultural property by (1) maintaining a centralized agricultural construction cost database and (2) conducting periodic field reviews of agricultural properties.

Construction Cost Database

In Yuba County, each appraiser is responsible for specific geographic areas, each described by an assessor's map book. During the course of their work, some appraisers retain historical

construction cost information in their personal files. Some appraisers do not maintain historical construction cost information in any form.

While historical construction cost information is usually recorded on the appraisal record and construction cost surveys are occasionally made, there is no central database for construction costs from completed projects. Historical construction costs from completed projects should be maintained in a centralized location available to all of the appraisal staff.

Periodic field reviews

Many agricultural properties have not been field reviewed for several years. Agricultural properties are reviewed only on an “as needed” or “event” basis. The assessor relies heavily on the Business Property Statement 571L and/or the Agricultural Property Statement 571F to discover new construction. This has resulted in escaped assessments, especially for living improvements. New construction not reported on a property statement often escapes assessment for years if field reviews are not made.

If field reviews were conducted on a rotating schedule within the county, fewer new construction projects would escape assessment. Initiating a regular schedule of field reviews should increase the discovery of newly constructed improvements (living and non-living). We suggest that the assessor establish a rotating schedule for conducting field reviews of agricultural areas within the county over the course of the next few years.

TAXABLE GOVERNMENT-OWNED PROPERTIES

The California Constitution, article XIII, sections 3 and 11, exempts from taxation property owned by a local government, except lands and the improvements thereon located outside its boundaries that were subject to taxation at the time of acquisition. Taxable government-owned properties are frequently referred to as section 11 properties because the method for determining their assessed value is specified in California Constitution, article XIII, section 11.

The taxable value of the land must be the lowest of (1) the 1966 or 1967 assessed value adjusted by a factor supplied annually by the State Board of Equalization (section 11 value), (2) the current fair market value, or (3) the Article XIII A factored base year value. The Article XIII A base year value is determined in the same manner as privately owned land.

Improvements that were taxable when acquired by the government agency, or replacement improvements, are assessable at the lowest of (1) current market value, (2) full cash value as defined by article XIII A of the California Constitution, or (3) the highest value ever used for taxation. New construction, with the exception of new improvements that replace previously taxable improvements, is exempt. At the time of our survey, Yuba County was assessing 15 government-owned properties.

Suggestion 3: *Annually review the taxable status of government-owned property.*

We compared the tax-rate area codes for all government-owned assessor parcels to the tax-rate area index to verify whether listed government-owned properties were within the government agency's boundaries. We found that four properties owned by the City of Marysville were within the city limits but were being assessed as taxable government-owned property.

Upon notification of our discovery, the assessor reviewed the parcels and began the correction process. We suggest that the taxable status of all government-owned properties be reviewed each year to insure that they are properly assessed.

POSSESSORY INTERESTS

A taxable possessory interest (PI) exists whenever a private party has the right to the beneficial use of real property owned by a public agency. The Revenue and Taxation Code requires the assessor to identify possessory interests and value those possessory interests upon a change in ownership (creation, renewal, extension, or assignment).

The 1997-1998 Yuba County assessment roll contained 167 possessory interest assessments. Possessory interests in Yuba County are monitored and valued by the assistant assessor. The assistant assessor annually contacts public agencies by letter or in person to request current information on new or changed tenancies or rents.

In general, the PI assessment program is administered effectively. Proper valuation techniques are utilized and the assessor conducts an aggressive discovery program. However, we noted that several procedures and practices exist for which we recommend changes be made.

Recommendation 6: Revise the possessory interest assessment program by (1) reviewing terms of possession for grazing leases and (2) obtaining the names of the specific federal and state agencies that are now only identified as “USA” and “State of California” that manage properties.

Review terms of possession for grazing leases

BOE Rule 23 requires the assessor to use a reasonably anticipated term of possession to value a PI, whether that term is shorter or longer than the one specified in the lease agreement. The history of the property's use, the policy of the public agency that administers it, and the intent of both the agency and the possessor are among the factors that the assessor should consider when estimating a reasonable term of possession.

We noted that the term of possession used to value the grazing lease PI's often did not reflect the history of possession. In Yuba County, grazing lease PI's are generally valued using a term of possession of two to five years. However, we found several instances where the actual possession by the same lessee had been in excess of 20 years.

Names of specific federal and state agencies

We found a number of entries on the assessor's non-assessed properties list, owned by governmental agencies, where the owner was identified only as “USA” or “State of California.” Without the administering agency's name and address, the assessor is unable to request information regarding possessory interests on these parcels, with the potential that some PI's may escape assessment. We recommend that the assessor's staff obtain the names of the specific agencies that manage government-owned properties.

WATER COMPANY PROPERTY

Taxable water company property may be owned by government-owned systems located outside the agency's boundaries, or owned by private water companies, either regulated or not by the California Public Utilities Commission (CPUC). The non-regulated companies include mutual water associations. The proper identification of the owner of water company property is vital for a proper assessment.

The assessor relies on information from other agencies and annual taxpayer reporting to track the existence and operation of water systems in the county. The assessor regularly obtains lists of water facilities from the Lassen District Office of the California Department of Health Services Office of Drinking Water (ODW) and the Yuba County Environmental Health Department (EHD). He does not obtain information from the CPUC. We compared information obtained

from CPUC, ODW, and EHD with the assessor's records and did not find any systems that the assessor was not aware of.

In Yuba County, ODW monitors all systems having 200 or more customers; all others are monitored by EHD. Only seven water distribution systems in Yuba County are monitored by ODW. Most of those monitored by EHD serve mobile home parks, apartments, or recreational facilities. Most of the privately owned water systems in the county are located on the land served, such as manufactured home parks, restaurant facilities, recreational facilities, rural/agricultural sites with hookups for transient workers, etc.

Municipal Systems

Government-owned water system property can be taxable if located outside the agency's boundaries and the property was taxable when acquired. Six of the seven water systems in Yuba county with more than 200 hookups monitored by ODW were found to be municipal systems, whose property had been correctly exempted from taxation.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost only to its stockholders or members. Mutual water companies are not subject to regulation by the California Public Utility Commission. When the mutual water company's ownership interests are appurtenant to the land being served by the company, the value of the equity of the mutual water company is typically reflected in the sale prices of the property being served. If the company has debt, the value of the equity will not be equal to the fee value of the property owned by the company.

Recommendation 7: Do not exempt property from assessment without documentation supporting the exemption.

We found two mutual water companies with property in Yuba County. The assessor has identified these two water companies as mutual water companies and reduced their assessments to zero. We found one delivered only irrigation water; its articles of incorporation expired in 1977. The other mutual water company's appraisal file did not contain any information regarding the nature of the company's business activities. Neither file contained sufficient information to support the exemption granted these two water companies.

Private Water Companies

Private water companies, both regulated and unregulated, are privately owned utilities in business to earn a profit from the sale of water. Regulated water companies are required to submit financial reports annually to the CPUC.

The CPUC regulates the rates charged by a private water company, with profits limited to a return on the company's investment net of depreciation. Because the assessed values of these properties are tied directly to regulated rates, current market value may be less than a water

company's factored base year value, making it necessary to annually determine its taxable value as of the lien date.

A privately owned public utility company, which is also regulated by the CPUC, owns the seventh system monitored by ODW in Yuba County. During 1997, only two water companies in Yuba County were regulated by CPUC. One is the privately owned public utility, with 3,784 connections. The other facility is a 70-acre lake primarily supplying water to a campground with 600 hookups.

TIMBERLAND PRODUCTION ZONE (TPZ) PROPERTY

Land that has been zoned Timberland Production Zone (TPZ) is subject to assessment in accordance with the special TPZ site classifications that exclude the value of the standing timber. There are 166 parcels of TPZ land, totaling 30,636 acres in Yuba County. The 1996 timber harvest was 33.136 million board feet, valued at \$13.75 million.

For the 1997-98 assessment roll, the assessor is using a computer program that computes the values on all TPZ properties. Included in that computation is the valuation for compatible uses for properties with a compatible use. Our review indicate that the assessor's TPZ assessments are appropriate.

MINERAL PROPERTIES

Yuba County has several active mineral producing properties in its jurisdiction. The assessor personally appraises these properties. There are also over 100 unpatented mining claims located in the county.

The previous survey had two recommendations concerning mineral properties. The first was that the assessor use the principles set forth in Assessors' Handbook section 560 to adjust base year values for depletion of reserves for producing mineral properties. The second was that unpatented mining claims be reviewed for reappraisal eligibility.

We found that the assessor has implemented our recommendation relating to adjusting base year values for depletion. However, our review of the assessor's records indicates that the assessor has not implemented the recommendation regarding unpatented mining claims.

Unpatented Mining Claims

Mineral rights, which are properly classified as real property, are eligible for assessment under article XIII A of the California Constitution. Unpatented mining claims, a specie of mineral rights that are a possessory interest properly classified as real property, are eligible for assessment under article XIII A of the California Constitution.

Recommendation 8: ***Revise the assessments of unpatented mining claims by (1) using factored base year value as the upper limit of taxable value, (2) using BOE-prescribed valuation techniques, (3) including new construction values in taxable value, and (4) verifying filing status.***

Factored Base Year Value

The assessor uses a uniform \$2,000 per 20 acres per claim regardless of recent sales or work performed on the claim. The assessor increased the assessment for each unpatented mining claim from \$1,500 to \$2,000 per 20 acres per claim for the 1995 lien date. This increase was across the board on all unpatented mining claims. We found no documentation to support this increase.

Several properties we reviewed showed the same owner has held them for several years. However, the assessor has increased the assessed value of the mineral rights without a triggering event (change in ownership or discovery of new reserves). Revenue and Taxation Code section 61 is specific as to what constitutes a change in ownership for mineral rights and possessory interests. Annual renewal of mining claims does not constitute a change in ownership. Mining claims are held in perpetuity as long as the annual filings are made with the Bureau of Land Management (BLM) and the county recorder.

BOE Rule 469(f)² prescribes how mineral-producing properties without proved reserves (mining claims) should be valued. For unpatented mining claims that have not had a change in ownership, the factored base year value should be the upper limit of value.

We recommend that factored base year values be the upper limit of taxable value for unpatented mining claims.

BOE-prescribed valuation techniques

Unpatented mining claims are possessory interests. BOE Rule 25 prescribes the valuation techniques for possessory interests. The valuation technique used by the assessor, which yields a uniform value for each 20-acre increment of a claim, cannot be reconciled with the valuation techniques described in Rule 25, in that the assessor fails to use an appropriate discount rate. We believe the assessor's use of an improper discount rate when calculating the values causes the assessed values of the claims to be excessive.

Using the rental fee paid for a claim as the anticipated income, the discount rate derived from the assessor's market value estimate is 5 percent. The current cost of capital in the mining industry is approximately 20 percent. Given the history of gold production in the area, it could be assumed that these claims would have an anticipated income greater than the rental fee. However, the level of activity reported for the various claims we reviewed indicates that a standard market value for each claim is not appropriate for these properties.

² The final draft of this report that was provided to assessor erroneously listed Rule 463(f) as the rule that prescribes how mineral properties without proved reserves should be assessed.

The county does an excellent job of tracking recent sales of mining claims, but little use is made of the recent sales information. We reviewed several sales, and the claim values indicated by the sale prices, plus the remaining fees for maintaining the claims, indicated values significantly lower than those used as the taxable value. Using a before tax discount rate of 20 percent yields a value of \$500 for the future rental payments per claim. Adding this value to the sale prices reported for several recent sales of unpatented mining claims renders the proper taxable values.

For example, a property sold in August 1996 for \$750 should lead to an assessed value of \$1,250. However, the 1997 lien date assessment was \$6,000. Another property, with three claims, sold in March 1995 for \$1,000. The 1996 enrolled value should have been \$2,500, plus the value of the improvements; however, the taxable value was \$13,270. Of this enrolled assessment, \$1,270 was the adjusted base year value for the improvements and \$12,000 was assessed to the possessory interest in the mineral rights. The assessor's records did not indicate the current market value of the improvements.

We recommend that the assessor use BOE-prescribed valuation techniques contained in Rule 25 to value unpatented mining claims.

New construction value.

The annual assessment work notices filed with the BLM on one property we reviewed indicated that improvements were made to the property in the form of ditches and shafts. However, there is no indication in the appraisal record that the value of these improvements was added to the property value as new construction. We recommend that the value of new construction be included in the taxable value.

Verify filing status.

Association placer claims allow multiple persons to claim up to 160 contiguous acres with one filing. The maximum size of a claim is 20 acres per person. The advantage is that only one discovery must be made and only \$100 of assessment work or rental fee needs to be paid for the entire claim. In effect, this type of claim is one possessory interest with multiple owners.

The assessor treats association placer claims as if they were separate claims for assessment purposes. We believe an association claim is one property and should be valued as such. We recommend that association claims be treated as if each is one claim and one possessory interest for valuation purpose.

Mines and Quarries

BOE Rule 469(e)(1)(C) requires that a decline in the value of mineral property be recognized when the market value of the appraisal unit, i.e., land, improvements including fixtures, and reserves, is less than the current adjusted base year value of the same unit. Rule 469 requires that a decline in value be measured for the total appraisal unit. However, it does not dictate that a specific appraisal method be used to value properties.

Capitalized income, cost, or comparable sales appraisal methods are acceptable for valuing either

the total property or its component parts. The proper procedure is to determine the total property value for the purposes of measuring any declines in value. After determining the proper taxable value for the appraisal unit, the assessor can allocate the assessment to the owners of the production and royalty interests.

Recommendation 9: ***Revise the assessments of quarries by (1) complying with BOE Rule 469 by using the appropriate appraisal unit when determining the taxable value of quarries and (2) adjusting base year values for changes in reported reserves.***

Appropriate Appraisal Unit

For quarries, the assessor's current practice is to assess the value of the mineral rights to the landowner and the value of improvements and equipment to the quarry operator. While the practice of separate assessment of the interest is not incorrect, there was no documentation in the assessor's files to indicate that the total value of the appraisal unit was considered when determining the taxable values of the various ownerships of quarry operations.

We recommend that the assessor comply with Rule 469 by comparing the market value of quarry operation appraisal units to the adjusted base year value of the same appraisal unit.

Reported Reserves.

Our review found that the owner of one property reported changes in proven reserves, unrelated to depletion from production, over a period of several years. The assessor has neither considered these reserve changes nor documented the calculation of proved reserves for the property. The same reserve number, less depletion, has been used to value the property since establishing the base year for the property in 1992.

The company's reported reserves have undergone great fluctuations, presumably due to changes in the market price of gold. In general, the economics of the mineral extraction industry tend to fluctuate over time. Rule 469 requires that the assessor consider economic operating conditions when estimating proved reserves. We recommend the assessor comply with Rule 469 by considering economic conditions when calculating the estimates of proved reserves.

FARM HOME ADMINISTRATION SECTION 515 HOUSING

We believe a 44-unit apartment complex, encumbered by a Federal Government financing agreement, with occupancy restricted to households considered low or very low income, was valued using an improper technique. This property is encumbered by a Farmers Home Administration RRH-515 loan agreement that prevents the owners from charging rents above an amount set by the Federal Government and restricts the owners' return on their investment.

Recommendation 10: Reflect the effect of government restrictions when valuing properties encumbered by Federal Government financing agreements.

When estimating the capitalized income value of this property, the assessor relied on estimated *market* rents, expenses, and capitalization rates. For a value estimate using the sales comparison technique, the assessor utilized sales of apartment complexes that are not encumbered by this type of financing agreement.

This appraisal practice is not consistent with the appraisal methods recommended in Letter to Assessors (LTA) 79/37 and LTA 86/95. Although LTA's 79/37 and 86/95 refer specifically to HUD Section 236 housing, we believe the procedure used should be the same for any multifamily housing with similar restrictions.

The LTA's recommended appraisal practice is a capitalized income valuation technique, using the subject's actual rent and a capitalization rate that reflects the terms of the government financing. We recommend the assessor use this method to value all rent-restricted multifamily housing.

PERSONAL PROPERTY VALUATION AND ASSESSMENT

INTRODUCTION

The Yuba County Assessor's personal property appraisal staff consists of two auditor-appraisers who are responsible for 5,150 business property assessments, including 2,270 boat assessments. The large and more complex accounts are appraised by the Auditor-Appraiser III. One assessment assistant and two assessment specialists assist the auditor-appraisers. The auditor-appraisers spend two months of the year processing business property statements and ten months auditing. Auditor-appraisers do not have personal computers or spreadsheet programs.

Our review found the following problem areas related to personal property assessments: (1) factors contained in Assessors' Handbook Section 581 are not used as intended; (2) minimum valuation factors are used for the valuation of computers; (3) boats are not annually assessed at market value; (4) the assessor does not have computerized access to the Department of Motor Vehicles' vessel registration database; (5) manufactured homes are not classified as personal property; and (6) manufactured homes are not routinely assessed at the lower of market value or factored base year value.

AUDIT PROGRAM

The audit program is an important function of a business property assessment program. The assessor has a small but highly competent staff of auditor-appraisers. With management support and direction, the staff conducts a high quality audit program.

We commend the assessor for establishing a strong audit program. The assessor has fully implemented the recommendations in our last survey to (1) review completed audits for completeness, consistency, and appropriate application of audit theory and property tax law; and (2) adopt minimum audit standards.

Mandatory Audit Program

Revenue and Taxation Code section 469 requires an audit at least once each four years of the financial records of a taxpayer engaged in a profession, trade, or business when locally assessable trade fixtures and tangible business personal property have a full value of \$300,000 or more. BOE Rule 192 clarifies the statute by establishing the criteria that the threshold must be reached in each of four consecutive years.

Section 532 of the Revenue and Taxation Code requires escape assessments to be made within four years (six years if the escape was caused by fraud or willful concealment) after July 1 of the assessment year in which the property escaped taxation or was underassessed. If the assessor cannot complete a mandatory audit within this time limit, Revenue and Taxation Code section 532.1 allows the assessor to request a waiver of the statute of limitations from the taxpayer.

Yuba County has 95 accounts on its mandatory audit listing. Approximately 25 accounts must be audited each year to keep current. This level of production is being achieved and the mandatory audit program is current. The audits that we reviewed were generally of excellent quality. However, we believe that, if the assessor required cross-referencing of the audit work papers, the audits would be easier to understand.

Nonmandatory Audits

Although there is no legal requirement to audit all taxpayers, no auditing program is complete unless it includes a representative sampling of all sizes of accounts. An audit, or the possibility of an audit, promotes accurate reporting by taxpayers. Therefore, every class of account should be targeted for audit coverage.

An important goal of an audit selection system is to audit those accounts that will produce value changes resulting in tax revenue (positive or negative) greater than the cost of performing the audit. When choosing which accounts to audit, the assessor's first choice should be the account where a value change is likely to occur. Those accounts showing little or no likelihood of value changes should be considered low priority audits.

The assessor understands the importance of auditing these non-mandatory accounts. All taxpayers with assets at or over \$100,000 full value for four consecutive years are audited every fourth year. We commend the assessor for maintaining an audit program for accounts other than those mandated by Revenue and Taxation Code section 469.

BUSINESS PROPERTY STATEMENT PROCESSING

Business property assessments are based upon data submitted by taxpayers on the annual business property statement forms. The more accurate the data reported by taxpayers on the property statements, generally the more accurate the assessment roll.

The assessor's office processes 2,500 property statements annually.³ The assessor uses Board of Equalization prescribed forms for its business property statements.

Upon receipt, property statements are reviewed for proper signature, completeness, and timeliness. Copies (the assessor retains the originals) of unsigned or incomplete property statements are returned to the taxpayer with a letter detailing the deficiency. A list, by property statement type and account, of late-filed property statements is maintained. Properly completed property statements are placed in a "to be processed" file, which is available to the auditor-appraisers to make assessed value computations. Completed assessed value computations are routed to the assistant assessor for review, who then forwards the assessed values to a data entry process for the computerized assessment roll system.

³ Excluding boat property statements.

BUSINESS PROPERTY VALUATION

In Yuba County the business property valuations are performed by the two auditor-appraisers, using the Megabyte computerized valuation and assessment system. Valuation factors, which are a combination of price index and percent good factors for each category of equipment, are added to the computer system annually. Original costs are maintained for individual accounts for each category of equipment by year of acquisition. Current property statement filings and audits are used to update the database.

Equipment Price Index Factors and Depreciation Factors.

In the cost approach to value, market values are estimated through the use of price indices and percent good factors. Price indices are applied to acquisition costs to arrive at an estimate of replacement cost new. Depreciation is recognized by applying a percent good factor to replacement cost new to arrive at a market value estimate.

In Yuba County, taxable values for machinery and equipment are typically computed from acquisition costs through the use of valuation factors. The valuation factors are the product of a price index factor and a percent good factor. Accurate assessments depend on the proper choice, combination, and application of a price index and a percent good factor.

Recommendation 11: *Use price indices and depreciation factors published in Assessors' Handbook 581, as intended.*

The Board of Equalization's Policy, Planning, and Standards Division (PPSD) annually publishes price index factors and percent good factors that are used to compute current market value estimates by multiplying these factors times the reported acquisition costs of machinery and equipment. Assessors' Handbook Section 581 (AH 581), *Equipment Index Factors*, contains index factors for 12 categories of commercial equipment and six categories of industrial equipment, in addition to percent good factors for the equipment. The assessor uses the suggested price index and percent good factors from the AH 581 to appraise machinery and equipment, but not in the manner intended.

Index factors

Instead of using the schedule that is designated for the particular category of property being appraised, the assessor uses an arithmetic average of price indices for various categories of commercial equipment to compute the valuation factors. The assessor combines seven of the 12 classes of commercial equipment into one schedule. The seven classes are bank, hospital, hotel, laundry and dry cleaning, library, theater, and warehouse. The assessor applies BOE recommended index factors for service equipment to both service and garage equipment. The assessor properly applies scheduled index factors for commercial office, restaurant, and retail equipment.

Because there is a wide range of price index factors, it is important that the appropriate equipment category is selected. Averaging indices for different categories of equipment may

result in a small overall difference in total valuation. However, specific categories may be materially distorted. Averaging indices sacrifices accuracy for convenience, which may result in inequitable treatment of taxpayers. Some categories of equipment will be overassessed, some will be underassessed, and some will be properly assessed.

We recommend that the assessor use the appropriate price index factor for each category of equipment, rather than averaging price indices.

Depreciation Factors

Assessors' Handbook Section 581 contains percent good factors, which are measures of depreciation, in two tables: Table IV for Agricultural and Construction Mobile Equipment and Table V for Machinery and Equipment. Table IV contains percent good factors for new and used equipment for each category. The percent good factors recommended by the BOE for agricultural and construction mobile equipment were derived from a detailed analysis of used equipment sales data. Percent good factors in the column titled "New" should be used to measure depreciation if the subject property was acquired new; the column titled "Used" should be applied when the equipment was purchased used.

The assessor applies an arithmetic average of the "new" and "used" depreciation factors for each category of construction mobile and agricultural equipment to compute the valuation factor, which is, in concept, replacement cost new times percent good. Application of the "new" and "used" factors specific to the property being appraised will result in a better estimate of value. For construction mobile equipment and agricultural equipment, where "new" or "used" status cannot be determined from appraisal data on hand, application of percent good factors associated with the "new" column will provide a more conservative estimate of value.

We recommend that the assessor apply the appropriate percent good factor for each type of equipment instead of averaging "new" and "used" construction mobile and agricultural percent good factors.

Computer Valuation

The valuation of computers and related equipment (herein referred to as computers) has been a contested issue between taxpayers and assessors for the last few years. In its continuing effort to promote proper, equitable, and uniform property tax assessments, the Board of Equalization (BOE) has recommended valuation factors that assessors should use when valuing computers.

For the 1997 lien date, the BOE issued Letter to Assessors (LTA) 97/18, dated April 2, 1997, which recommended factors for computer valuation. The computer valuation factors are provided for three categories of equipment: (1) mainframe computers (computer equipment costing \$500,000 or more); (2) mid-range computers (computer equipment costing over \$25,000 and up to \$499,999); and (3) personal computers (computer equipment costing \$25,000 or less).

Recommendation 12: Use BOE recommended valuation factors to value computers.

When assessing computers for the 1997 lien date, the assessor did not use all of the recommended factors contained in LTA 97/18. The assessor used the BOE's recommended computer valuation factors for computers acquired during the years 1992 through 1996. However, to value all computers with 1991 and earlier acquisition years, the assessor used a minimum valuation factor of 12 percent of acquisition cost for mid-range computers and 10 percent of acquisition cost for personal computers. Since the utility of computers has a declining price curve, the inequity of this practice is obvious; the older computer with the least utility has the highest value. (For the 1997 lien date, no taxpayer reported any mainframe computers for assessment in Yuba County.)

The valuation factors recommended by the BOE were developed after extensive data gathering, analysis, and consultation with the computer industry and assessors. We believe that the proper application of the BOE's valuation factors yields reasonable estimates of current market values of computers.

We recommend that the assessor use the valuation factors contained in LTA 97/98 to value computers.

BOATS

Assessors are required to annually assess boats at market value and to assess all boats with a market value above \$400, unless the county has a resolution exempting low-valued property above \$400. Yuba County assesses approximately 2,300 boats.

When a boat is first discovered in Yuba County, a vessel owner's report (VOR) is mailed to the owner requesting information pertinent to the assessment process. Thereafter, no other information is requested of boat owners unless the boat changes ownership or is permanently moved outside the county.

The assessor uses Department of Motor Vehicles (DMV) reports to discover boats that have established situs within the county. The assessor periodically receives reports from the DMV which contain updated information on licensed vessels. The data on these reports are compared to the information in the assessor's files. Upon the discovery of boats not previously assessed in Yuba County, the assessor mails a VOR to the boat's owner.

Recommendation 13: Revise boat appraisal procedures by (1) annually assessing boats at market value and (2) obtaining computerized access to DMV's vessel database.

Annually assess pleasure boats at market value

When a boat is first discovered in Yuba County, the assessor sends a VOR to the owner. When the VOR is returned, the boat is valued using commercially published valuation guides. Once the

first year's assessed value is established, that value is depreciated at a fixed percentage each subsequent year until the assessed value reaches 40 percent of the original assessed value. This is the ratio that the assessor has established as the minimum valuation factor for a boat. The value of the boat remains at that level until there is a change of ownership or some other event causes a revaluation.

The annual depreciation factors were developed for the 1990 and 1991 lien dates from a detailed analysis of the year-to-year value changes contained in the commercially published boat value guides. The study is now out-of-date.

Additionally, the use of a minimum percent good factor applied to all acquisition costs, regardless of whether the boat was purchased new or used, can materially distort assessed values. When measured against purchase price, a boat purchased used can be expected to lose value at a slower rate than a boat purchased new and maintain a market value at a higher percentage of purchase price than a boat purchased new.

While the boat valuation procedure is efficient, it is not effective in that the fixed depreciation rate applied to all pleasure boats seldom yields actual market values. We recommend the assessor annually reappraise at least one-third of the vessels using a recognized boat valuation guide.

Obtain computer access to DMV's vessel database

Owners of pleasure boats are required to register their boats with the Department of Motor Vehicles (DMV). This state agency maintains a computerized registration file of each vessel owner's name, address, boat type and class, and other pertinent information. When a boat owner sells or moves the boat to a new location, the registration law requires that DMV be notified in order to update the registration file. DMV sends periodic reports to the county assessors' offices that list all boats registered in a particular county.

At no cost to assessors (other than an assessor's on-site computer hardware cost), the DMV permits assessors to directly access its computerized registration file to facilitate tracking boat ownership and registered location. It is likely that law enforcement agencies in Yuba County already have access to the DMV's database and it may be possible for the assessor to become an additional user of the law enforcement community's computer link to this database. Direct access to the DMV's system would save considerable staff time in determining the location and ownership of boats. We recommend that the assessor obtain computerized access to the DMV boat registration system.

GENERAL AIRCRAFT

Yuba County assessed 120 general aircraft on the 1997-98 assessment roll, with a total assessed value of approximately \$3,500,000. There are no certificated aircraft assessed in Yuba County.

The primary sources of discovery of assessable aircraft are the Airport Manager Reports, the Monthly Activity Listings from the Federal Aviation Administration, airport canvassing, reports from aircraft owners, and referrals from other counties.

Revenue and Taxation Code section 5363 requires that the market value of aircraft shall be determined in accordance with the standards and guides to the market value of aircraft prescribed by the Board of Equalization (BOE). Prior to the 1997 lien date, the Board published aircraft valuation data each year in Assessors' Handbook section 587, *Aircraft Valuation Data*. The BOE no longer publishes this information and recommends instead that counties determine market value by referring to a commercially published aircraft price guide.

On January 8, 1997, the BOE approved the *Aircraft Bluebook Price Digest* as the primary guide for valuing general aircraft. In cases where aircraft are not listed in this price guide, the BOE approved the use of the *Vref Aircraft Value Reference*. The BOE further directed, in Letter to Assessors 97/03, that the listed retail values shall be reduced by 10 percent to provide reasonable estimates of fair market values for aircraft in truly average condition on the lien date. In addition, overall condition of aircraft, additional or special equipment, airframe hours, and engine hours since the last overhaul must be compared to guide book prices to determine current market value.

We reviewed the assessments for aircraft and found that effective procedures are in place for properly assessing general aircraft.

ANIMALS

The California Constitution mandates that all property is taxable unless specifically exempted by the Constitution or, in the case of personal property, by act of the Legislature. The Revenue and Taxation Code exempts most animals from taxation. Pets are exempted under section 224. Many animals that are considered business inventory are exempted by Revenue and Taxation Code sections 129 and 219 and BOE Rule 133. Racehorses are exempt from property tax but are subject to the in-lieu tax specified in Revenue and Taxation Code section 5701, et seq.

Show horses are one of the few types of animals subject to property taxation. Show horses (and other horses that are not exempt) are assessed as personal property in the same manner as other items of personal property.

Currently, the assessor annually sends the Registered and Show Horse statement (Form 571-F-2) to eight owners of taxable horses. We reviewed the procedures for assessing taxable horses and found that the program is being administered correctly.

MANUFACTURED HOMES

Manufactured homes are assessed according to the Manufactured Home Property Tax Law, Revenue and Taxation Code sections 5800 through 5842. Revenue and Taxation Code section

5801, which defines a manufactured home for property tax purposes, instructs assessors to classify manufactured homes as personal property.

The Manufactured Home Property Tax Law applies many of the principles of article XIII A of the California Constitution to the assessment of manufactured homes. This is significant because article XIII A applies only to real property. Unlike other items of assessable personal property, manufactured homes (1) must be assessed on the secured assessment roll, (2) must receive a tax bill payable in two installments, (3) are subject to supplemental assessments (except in the case of voluntary conversions to local property tax), (4) must have a factored base year value, (5) have factored base year value as the upper limit of taxable value, (6) may receive a Homeowners' exemption, and (7) qualify as replacement property for the purposes of base year value transfers.

At the time of this survey, Yuba County had approximately 1,400 manufactured homes on the assessment roll. Of these, approximately 820 were located on rented land, while the remainder are located on land owned by the owner of the manufactured home.

Although manufactured home appraisal assignments are determined by geographic location and assigned to various real property appraisers, we found that manufactured homes are assessed consistently throughout the county. The assessor has assigned one real property appraiser the duty of coordinating and disbursing all incoming data pertaining to manufactured housing. The assessor currently receives periodic lists from the Department of Housing and Community Development (HCD) for new sales, resales, change of location, and voluntary conversion of manufactured homes from vehicle license fee to local property tax. The appraisers use this information, as well as dealer reports of sale, to keep current on all changes in ownership. Building permits are also screened and distributed to the appraisers for any new construction activity related to manufactured homes. Our review indicated that the assessments of manufactured homes meet legal requirements with two exceptions.

Recommendation 14: ***Revise the program for the assessment of manufactured homes by (1) classifying manufactured homes as personal property and (2) annually reviewing manufactured homes for market value below factored base year value.***

Classification as Personal Property

Revenue and Taxation Code section 5801(b) prohibits assessable manufactured homes, not on permanent foundations, from classification as real property for property tax purposes. However, the assessor, who is aware of the misclassification, assesses these items as real property on the secured assessment roll.

Classification of a manufactured home as personal property results in several property tax consequences. Personal property is exempt from taxation if (1) held for sale or lease by a dealer, (2) owned by military personnel on active duty in California who are legal residents of another state, (3) owned by a bank, insurance company, or financial corporation, or (4) owned by a

government agency but used by a private person (no taxable possessory interest can exist in personal property). Taxable personal property is also exempt from the levy of special assessments.

We recommend that the assessor classify manufactured homes as personal property.

Market Value Below Factored Base Year Value

Revenue and Taxation Code section 5803 requires that, for property tax purposes, the market value of a manufactured home located on rented land be estimated independently of any influence on value caused by the location of the manufactured home. Section 5803 also instructs the assessor to consider the prices listed in recognized value guides for manufactured homes when estimating market value. Revenue and Taxation Code section 5813 requires that the taxable value of a manufactured home be the lesser of its factored base year value or its current market value.

The assessor establishes a manufactured home's base year value when the manufactured home has changed ownership or has been newly constructed. The base year value is then annually factored by the California Consumer Price Index to reach the factored base year value (FBYV), which is routinely used as the taxable value. A market value that is less than the FBYV is not used as the taxable value unless the taxpayer applies for a reduction in the assessment.

Recognized value guides generally show a declining price level for manufactured homes. Routine use of factored base year value as the taxable value of a manufactured home on rented land is an inappropriate assessment practice. We recommend that the assessor develop a procedure to annually compare the FBYV's of manufactured homes on rented land to their market values and use the lower as the assessed value.

APPENDIX

A. COUNTY PROPERTY TAX DIVISION SURVEY GROUP

YUBA COUNTY

Survey Program Manager:

Charles Knudsen

Chief, County Property Tax Division

Survey Team Supervisor:

David Hendrick

Supervising Property Appraiser

Survey Team Leader:

Dennis Miller

Associate Property Appraiser

Office Survey Team:

James McCarthy

Senior Petroleum & Mining Appraisal Engineer

Dale Peterson

Associate Property Auditor Appraiser

Lisa Thompson

Associate Property Auditor Appraiser

Irene Anderson

Associate Property Appraiser

Mike Parker

Associate Property Appraiser

B. THE ASSESSMENT SAMPLING PROGRAM

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing⁴ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The Board of Equalization (BOE) in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the BOE's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The assessment sampling program is conducted by the BOE's County Property Tax Division (CPTD) on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

1. A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
2. These assessments are stratified into 18 value strata (nine secured and nine unsecured.)⁵
3. From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.
4. For purposes of analysis, the items will be identified and placed into one five categories after the sample is drawn:
 - a) **Base year properties.** Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - b) **Transferred properties.** Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

⁴ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

⁵ The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$22,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

- c) **New construction.** Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - d) **Non-Proposition 13 properties.** Those properties not subject to the value restrictions of Article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, timber preserve property, and taxable government-owned property.
 - e) **Unsecured properties.** Those properties on the unsecured roll.
5. From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation which is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. This apparent distortion in the raw sampling is eliminated by "expanding" the sample data; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.
6. The field investigation objectives are somewhat different in each category, for example:
- a) **Base year properties** -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?
 - b) **Transferred properties** -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?

- c) **New construction** -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?
 - d) **Non-Prop 13 properties** -- for properties not covered by the value restrictions of Article XIII A, or those properties that have a unique treatment do we concur with the amount enrolled?
 - e) **Unsecured properties** -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?
7. The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.
 8. The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

The primary use of the assessment sampling is to determine an assessor's eligibility for the cost reimbursement authorized by Revenue and Taxation Code section 75.60. During the course of the sampling activity, the assessment practices survey team may also discover recurring causes for the differences in the opinion of taxable value that arise between the assessor and the County Property Tax Division. These discoveries may lead to recommendations in the survey report that would not have otherwise been made.

C. RELEVANT STATUTES AND REGULATIONS

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of Records; Appraisal Data Not Public.

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located; of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the

surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.
- (b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.
- (c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code

75.60. Allocation for administration.

- (a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6 (commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997-98 fiscal year.

- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
- (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
 - (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:
- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
 - (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

- (b) For purposes of this regulation, “areas of an assessor’s assessment operation” means, but is not limited to, an assessor’s programs for:
- (1) Uniformity of treatment for all classes of property.
 - (2) Discovering and assessing newly constructed property.
 - (3) Discovering and assessing real property that has undergone a change in ownership.
 - (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
 - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
 - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of significant assessment problems, as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor’s practices.

ASSESSOR'S RESPONSE TO BOARD'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the Board a response to the findings and recommendations in the survey report. The Yuba County Assessor's response begins on the next page.

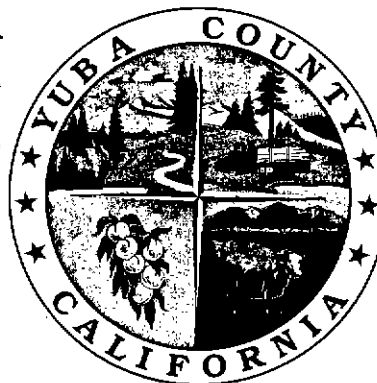
Section 15645 also allows the Board to include in the report comments regarding the assessor's response. Our response begins on the next numbered page (there are no page numbers for the assessor's response).

The County of Yuba

OFFICE OF THE COUNTY ASSESSOR

DAVID A. BROWN
COUNTY ASSESSOR

(530) 741-6221



February 4, 2000

Charles G. Knudsen, Chief
County Property Tax Division
Property Taxes Department
P.O. Box 942879
Sacramento, CA 94279-0062

RE: Yuba County Assessment Practices Survey

Dear Mr. Knudsen,

Pursuant to Section 15645 of the California Government Code, the following is the Yuba County Assessor's response to the recommendations contained in the Assessment Practices Survey of the 1997/98 assessment roll conducted by the State Board of Equalization survey team. Please incorporate my response in your final Assessment Practices Survey Report.

In reviewing my response, you will note that we agree with many of the recommendations and have already implemented or are planning to implement the changes necessary to achieve compliance. As noted on Page 3 of the report, "Overall, we believe the Assessor's program is very sound and only needs 'fine tuning'." I am pleased that most of the issues raised are minor technical matters that do not involve or affect the major duties and functions of the Department. We will continue to strive to observe every aspect of the law as well as sound appraisal practices in the production of the annual assessment roll.

I wish to thank you and the entire survey team for the professional and courteous manner in which the survey was conducted.

Most importantly, I want to thank my staff for their hard work, professionalism, and dedication to serving the citizens of Yuba County. The sampled 1997/98 fiscal year was a difficult year for this office with the Feather River levee break on January 2, 1997 and the Williams Fire on September 27, 1997, both of which were proclaimed to be major disasters by the Governor. As the survey points out on Page 10, "Reassessments for disaster relief after the January 2, 1997 flood were prioritized by the Assessor, and the revised tax bills for all eligible properties were mailed prior to the annual April 10th installment due date for property taxes." I am very proud of my staff's commitment to public service and we will continue our best effort to produce a quality assessment roll every year with the resources we are provided.

Sincerely,

DAVID A. BROWN
Yuba County Assessor

DAB:jg

Enclosures 935 14TH STREET - MARYSVILLE, CALIFORNIA 95901-4188 FAX (530) 741-6051

**YUBA COUNTY ASSESSOR'S RESPONSE
TO
STATE BOARD OF EQUALIZATION ASSESSMENT PRACTICES SURVEY
LIEN DATE - JANUARY 1, 1997**

Recommendation 1:

Include the escape assessment caption required by statute on the assessment roll.

Background:

Section 533 of the Revenue and Taxation Code and Board Rule 252 (a) require the following caption to appear on the assessment roll when processing escaped assessments: "Escaped assessment for year 19 ____ pursuant to sections _____ of the Revenue and Taxation Code."

Response:

This caption is a holdover from the days that Assessors produced hard copy rolls. The Assessor used a rubber stamp to place the caption on the hard copy roll and then filled in the blanks. This caption is not practical for rolls produced in electronic format. Our current data processing system provides the public with the corrected roll value, the roll correction number and the roll correction status. Additionally, escape information also appears on the extended assessment roll in the Treasurer/Tax Collector's office.

Recommendation 2:

Cease exempting low-value property unless the Board of Supervisors adopts a low-value resolution.

Background:

A county board of supervisors may exempt from property taxation all real property and personal property with a full value so low that, if not exempt, the total taxes, special assessments, and applicable subventions on the property would amount to less than the cost of assessing and collecting them.

Response:

On December 15, 1998, pursuant to Section 155.20 of the Revenue and Taxation Code, the Yuba County Board of Supervisors adopted Resolution No. 1998-149, which established a perpetual low value exemption of \$1,000.

Recommendation 3:

Revise disaster relief procedures by:

(1) Request the Board of Supervisors conform the disaster relief ordinance to Revenue and Taxation Code Section 2192.

Background:

The lien date as provided for in Section 2192 was changed from March 1st to January 1st effective January 1, 1997.

Response:

On May 25, 1999, the Yuba County Board of Supervisors adopted Ordinance No. 1244 - Disaster Relief, which recognizes the lien date change from March 1st to January 1st.

(2) Assess damaged properties as of the date of completion of damage repair, restoration, or reconstruction.

Background:

Section 170 (b) provides that property eligible for disaster relief includes land, improvements and personalty. Section 170 (h) (i) (A) and (B) provide for the utilization of the supplemental roll to make an additional assessment for the damaged property upon the completion of the repair, restoration or reconstruction.

Response:

The Board's recommendation concerns how we enrolled personalty after repair or restoration following the January 2, 1997 flood. The provisions of Section 170 (h) (i) (A) and (B) work well for the restoration and repair of real property (land and improvements), but not so well for personalty. The flood of January 2, 1997 covered thousand of acres and hundreds of agricultural parcels. One taxpayer had over 200 individual pieces of farm equipment damaged. Following the Board's interpretation of Section 170 (h) (i) (A) & (B) that taxpayer could possibly have had 200 supplemental tax bills based upon the date of repair or restoration. The Board's position, although technically correct, cannot be practically applied to respond to a major disaster.

(3) After a disaster, inform taxpayers of the possibility for deferral of property taxes pursuant to Revenue and Taxation Code Section 194.1.

Response:

We concur with this recommendation.

Recommendation 4:

Apply the penalty required by Revenue and Taxation Code Section 482 for failure to respond to a request for a "Change in Ownership Statement."

Background:

Revenue and Taxation Code Section 482 provides that if a person fails to file a COS within 45 days after a written request by the Assessor, the Assessor shall add a penalty of either \$100 or 10 percent of the taxes applicable to the new base year value, whichever is greater but not to exceed \$2,500.

Response:

We concur with this recommendation.

Recommendation 5:

Implement a formal program for discovering properties with a market value below factored base year value.

Background:

Property tax law requires the Assessor to enroll the factored base year value of property (Proposition 13) or the property's current market value (Prop 8), whichever is less.

Response:

As of the date of the survey, lien date January 1, 1997, Yuba County had 898 Prop 8 assessments. By lien date January 1, 1999, the number of Prop 8 assessments had grown to 1,446 or 6.5% of the secured roll. This clearly demonstrates that this office has an aggressive Prop 8 discovery program already in place. If the State Board of Equalization has a specific formal program for discovering properties with a market value below the factored base year value that we are not already doing and could be implemented with current staffing levels, we would appreciate knowing about it.

Recommendation 6:

Revise the possessory interest assessment program by:

(1) Reviewing terms of possession for grazing leases

Background:

BOE Rule 23 requires the Assessor to use the actual term specified in the document creating the possessory interest for purposes of valuation. If the period thus determined is in conflict with the reasonably anticipated term of possession, the reasonably anticipated term of possession, whether shorter or longer, shall be used instead of the stated period. The Board objects to the Assessor's use of the actual terms provided in the grazing leases.

Response:

The term of possession for grazing leases for valuation purposes has been determined by the Assessor to be the actual terms in the leases creating the possessory interest. These grazing leases are subject to open public bidding at the end of their term, and history shows that ownership changes over 80% of the time. We believe using the actual term in the leases provides for the most accurate and fair determination of the term of possession for valuation purposes.

(2) Obtain the names of the specific federal and state agencies that are now only identified as "USA" and "State of California" that manage properties.

Response:

We concur with this recommendation.

Recommendation 7:

Do not exempt property from assessment without documentation supporting the exemption.

Background:

When a mutual water company's ownership interests are appurtenant to the land being served by the company, the value of the mutual water company is typically reflected in the sale prices of the property being served. The Board found two mutual water companies with zero value assessments and no documentation in the file to support the exemption granted.

Response:

The Fairway Downs Mutual Water Company supplies water to a residential subdivision and the Plumas Mutual Water Company supplies water to agricultural parcels. First and foremost, all of the parcels served by these water systems are assessed at values that reflect the availability of water. For the Assessor to also have an assessment on the property owned by the mutual water companies would amount to a double assessment. After a physical inspection of these systems and discussions with appurtenant land owners, the Assessor made a determination that both systems were mutual water companies. Because the original developers of these systems are long gone and they are managed by volunteer land owners, paper work is sometimes difficult to obtain. The State Board of Equalization has been in Yuba County for two years and has had ample time to determine whether or not Fairway Downs and Plumas are mutual water companies. To our knowledge, the Board does not have any evidence that they are not mutual water companies.

Recommendation 8:

Revise the assessments of unpatented mining claims by (1) using factored base year value as the upper limit of taxable value, (2) use BOE - prescribed valuation techniques, (3) include new construction values in taxable value, and (4) verify filing status.

Background:

Yuba County currently has 77 mining claim assessments comprised of 168 (20 acre) mining claims with a total taxable value of \$336,000. The Assessor annually sends a mining production report to each assessee and works closely with BLM to maintain accurate records. The Board believes these claims should have a factored base year value and that the Assessor has generally over valued the mining claims. The major disagreements center on whether or not the mining claims are subject to a change of ownership pursuant to Revenue and Taxation Code Section 61 (a), and the Assessor's valuation method.

Response:

The Board states on Page 22 of the survey, "Annual renewal of mining claims does not constitute a change in ownership. Mining claims are held in perpetuity as long as the annual filings are made with the Bureau of Land Management (BLM) and the county recorder. Unpatented mining claims are possessory interests." The Board's position has no merit. It is legally impossible for the property rights associated with mining claims to be perpetual, and at the same time constitute a taxable possessory interest.

It is the Assessor's position that mining claims are possessory interests. The claimant is required to make an annual filing with (BLM). Failure to pay maintenance fees, file a waiver of maintenance fees, or perform proper assessment work on a claim/site, will render the claim/site subject to cancellation. The Assessor believes this annual filing constitutes a renewal of the mining claim and a change of ownership subject to reappraisal. Section 61 "Change in Ownership" includes, in part, "(a) The creation, renewal, sublease, assignment, or other transfer of the right to produce or extract oil, gas, or other minerals regardless of the period during which the right may be exercised," emphasis added.

The second part of the Board's recommendation has to do with valuation. The Board states on Page 22 of the survey, "BOE Rule 463 (f) prescribes how mineral - producing properties without proved reserves (mining claims) should be valued." Property Tax Rule 463 (f) was deleted effective June 12, 1998 and obviously provides no guidance. The Assessor will continue to assess mining claims pursuant to Property Tax Rule 25.

Recommendation 9:

Revise the assessments of quarries by:

(1) Comply with BOE Rule 469 by using the appropriate appraisal unit when determining the taxable value of quarries.

Background:

Property Tax Rule 469 (e) (i) (c) provides that declines in the value of the mineral property shall be recognized when the market value of the appraisal unit, (i.e. land improvements including fixtures, and reserves), is less than the current adjusted base year value of the same unit.

Response:

The Assessor is well aware of the appropriate appraisal unit of mining properties for purposes of measuring declines in value. However, for purposes of determining the original base year value, when the mineral rights and the mining operation are in separate ownerships, the Royalty Appraisal Technique as discussed in the Board's Handbook AH 560 - Assessment of Mining Properties provides for a reliable indicator of value. The AH 560 on Page 6-11 states, "The Royalty Appraisal Technique is a commonly accepted appraisal procedure useful as an indicator for an operation of any size." For purposes of measuring declines in value the Assessor has and will continue to utilize the appraisal unit as provided for in Rule 469.

(2) Adjust base year values for changes in reported reserves.

Background:

The Board reviewed a gold mining property that reported reserve changes on their annual production report, and the Assessor did not make the appropriate Rule 469 adjustments.

Response:

We concur with this recommendation and will make adjustments pursuant to Rule 469.

Recommendation 10:

Reflect the effect of government restrictions when valuing properties encumbered by Federal Government financing agreements.

Background:

The Board determined an apartment complex, encumbered by a Federal Government Financing agreement with occupancy restricted to low income households, was valued using an improper technique.

Response:

We concur with this recommendation. We have reviewed the valuation of all restricted low income apartments to ensure that they are valued using Board prescribed procedures.

Recommendation 11:

Use price indices and depreciation factors published in Assessor's Handbook 581, as intended.

Background:

Assessor's Handbook Section 581 (AH 581), equipment index factors, contains index factors for 12 categories of commercial equipment and six categories of industrial equipment. The Assessor's old data processing system had limitations on the number of schedule categories that could be entered into the system, which forced the Assessor to average some price indices. Averaging caused small valuation differences for some types of equipment.

Response:

We concur with the Board's recommendation. In the newly installed Megabyte software there is no limitations on the number of schedule categories. The combination of several classes of commercial equipment has been discontinued and each class now has a separate schedule.

Recommendation 12:

Use BOE recommended valuation factors to value computers.

Response:

We concur with this recommendation. All computers are currently being valued as outlined in Assessors letter 97/98.

Recommendation 13:

Revise boat appraisal procedures by:

- (1) Annually assess boats at market value.**

Background:

The Assessor is annually responsible for valuing approximately 2,300 boats at market value. The Assessor currently utilizes an efficient computerized mass appraisal system to accomplish this task. The Board would like to see at least one-third of the boats revalued annually using a recognized boat valuation guide.

Response:

The Board apparently has misunderstood the Assessor's methodology used to value boats. Percent goods are not applied to acquisition costs. When a boat is first assessed, it is placed at the depreciation factor on a depreciation table that represents its age at the time of valuation. For example, a 1991 model eight year old boat being valued for the first time for the 1999 assessment year would be factored at the 1991 percent good factor. It would not be the acquisition cost that was factored, but the estimated 1991 cost new. This methodology prevents valuation distortion that would occur if percent good factors were applied to acquisition costs regardless of whether the boat was purchased new or used. The Board's recommendation that at least one-third of the boats be annually reappraised using a recognized boat valuation guide is a good idea. However, staff limitations will make this recommendation difficult to implement.

(2) Obtain computerized access to DMV's vessel database.

Response:

We concur with this recommendation.

Recommendation 14:

Revise the program for the assessment of manufactured homes by:

(1) Classify manufactured homes as personal property.

Background:

Revenue and Taxation Code Section 5801 (b) prohibits assessable manufactured homes, not on permanent foundations, from classification as real property for property tax purposes. The Assessor incorrectly assesses these items as real property on the secured assessment roll.

Response:

We concur with this recommendation. Manufactured homes have been assessed as real property due to the limitations of our old data processing system. However, manufactured homes have always been treated as personal property under applicable property tax law. Our new data processing system provides for a separate classification (mobile home personal property) and all manufactured homes not on permanent foundations have been reclassified.

(2) Annually review manufactured homes for market value below the factored base year value.

Background:

Revenue and Taxation Code Section 5813 requires that the taxable value of a manufactured home be the lesser of its factored base year value (Prop 13) or its current market value (Prop 8). Recognized value guides generally show a declining price level for manufactured homes.

Response:

We concur with this recommendation. We have always aggressively reviewed the value of manufactured homes located on rented land. Currently over 50% of all manufactured homes on rented land are assessed at market value (Prop 8).

BOARD'S COMMENTS ON ASSESSOR'S RESPONSE

In accordance with the provisions of Government Code section 15645, the Board's staff has elected to comment on some of the assessor's responses.

Recommendation 1: Include the escape assessment caption required by statute on the assessment roll.

The assessor stated in his response that the caption is a holdover from the days that assessors produced hard-copy rolls and is not practical for rolls produced in electronic format.

The Board's staff is not aware of any inherent limitations in data processing systems that prevent compliance with law. If the cost of complying with Revenue and Taxation Code section 533 and Property Tax Rule 252(a) is unreasonable, the solution is not to ignore the law but to seek legislative and regulatory relief.

Recommendation 3: Revise disaster relief procedures by ... (2) assessing damaged properties as of the date of completion of damage repair, restoration, or reconstruction ...

The assessor stated in his response that the Board's position is technically correct but impractical with respect to personal property.

If the cost of complying with the requirements of the Revenue and Taxation Code is unreasonable, the solution is not to ignore the law but to seek legislative and regulatory relief.

Recommendation 8: Revise the assessments of unpatented mining claims by (1) using factored base year value as the upper limit of taxable value, (2) using BOE-prescribed valuation techniques

(1) using factored base year value as the upper limit of taxable value ... The assessor stated that he believes an annual filing of a mining claim is a reappraisable "renewal" within the meaning of Revenue and Taxation Code section 61(a).

Letter to Assessors 82/77 deals with the issue of the length of term for a mineral possessory interest. The letter states:

"By expending certain labor, money, and filing proof of such, the holder of a mining claim unilaterally perpetuates his possessory interest in the claim; no new government permission is necessary. The scope of the right does not change, nor are new rights created. The holder has simply satisfied a condition for continuation of the right acquired by the holder when the claim was filed."

The "renewal" language in section 61(a) is qualified in Section 61(b)(1), which states:

"“Renewal” and “extension” do not include the granting of an option to renew or extend an existing agreement pursuant to which the term of possession of the existing agreement would, upon exercise of the option, be lengthened, whether the option is granted in the original agreement or subsequent thereto.”

The option to renew is a necessary part of the mining claim. Mineral properties can take several years to develop. Annual assessment work, payment of maintenance fees and filing with the BLM are the requirements for executing the option.

The BOE staff position is that renewals of mining claims do not constitute a change in ownership. There is no defined term for mining claims and they can be held indefinitely as long as the annual filing requirements are met. The claim holder has an exclusive renewal option up to the September 1st filing date. Claims can be canceled by the BLM only if it is determined that the conditions for holding the claim have not been met.

(2) using BOE-prescribed valuation techniques ... The assessor stated that Rule 463(f) was deleted in 1998, and the assessor will continue to assess mining claims pursuant to Rule 25.

The reference to Rule 463(f) was a typographical error in the draft of this report that was provided to the assessor. The reference should have been 469(f). We regret the misunderstanding caused by the erroneous reference to Rule 463.